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AEROSPACE & DEFENSE SECTOR

Industry Overview

In 1999 the European aerospace industry's sales posted another record year. It continued its strong performance of the previous year, growing by 2.9%, totaling 65.6 billion euros (approx. \$59.6 billion), according to the European Association of Aerospace Industries (AECMA). The most notable increase was in civil aerospace exports, which grew by 12.8%, and the most significant decrease was in defense exports, which dropped a precipitous 42.9%.

Sales outside Europe totaled 33.2 billion euros, or 50.6% of turnover. Exports to the United States alone totaled 16.5 billion euros, or over 25% of total European production and half of all European exports. U.S. Department of Commerce (USDoC) figures for European imports to the U.S. were similar, although slightly lower. In addition to being the single largest market for European aerospace products, the U.S. is Europe's most important source of imports. According to AECMA, 86% of imports to Europe in 1999 were from the U.S., totaling 9.7 billion euros. USDoC figures for total exports are notably different, indicating exports to Europe totalling approximately \$24 billion.

The decline in military exports was largely due to cancellation of procurement programs, particularly in Asia, and the completion of large Middle Eastern programs at the beginning of the year.

The breakdown in turnover indicates that sales of finished large civil aircraft, i.e., Airbus, along with aircraft maintenance, accounted for the two largest categories. Large civil aircraft sales totaled nearly 15 billion euros, and aircraft maintenance 15.9 billion euros. The next largest categories included aircraft engines (9.1 billion euros) and military aircraft (6.2 billion euros). Space-related turnover totaled 4.2 billion euros.

In terms of research and development funding, approximately 9.6 billion euros were spent in 1999, representing 14.7% of total industry turnover. This number is divided about equally between company-financed and government-financed R&D. Unfortunately, this represents a drop in R&D funding, declining from 1998's figure of 16%, or 10 billion euros. For comparison, the U.S. spends three times more in R&D, for a market twice the size of Europe.

Aerospace companies are based in all EU member states, but the core of the industry is located in the four member states with the largest economies - the UK, France, Germany and Italy. A second group of countries, including Spain, Sweden, the Czech Republic, the Netherlands and Belgium, host active aerospace and defense firms with activities in a number of market segments. Direct employment in the sector rose 3.37%, to 436,703

employees. Of this, the UK has the largest workforce with 154.5 thousand, France provides 99.1 thousand, and Germany with 72.1 thousand. These three countries represent nearly 75% of total employment in the sector in Europe.

The industry has made major strides in pursuing consolidation, with the merger of France's Aerospatiale-Matra and Germany's DASA (which bought Spain's CASA) to form the European Aeronautics Defense and Space Company (EADS). The merger was approved by the European Commission in the first half of 2000. Combined with the merger of British Aerospace with GEC-Marconi to form BAE Systems, Europe now has two major aerospace and defense companies of a size and range to compete head-to-head with American firms such as Boeing, Lockheed-Martin or Raytheon.

European industry has long been characterized by trans-national groups, such as Airbus and Matra-Marconi Space, but this process is moving quickly from joint-ventures or consortia to true transnational corporations, the most significant example being EADS. It still remains to be seen how well the merger process will overcome competing national interests and cultural differences in the context of a true corporation. Airbus itself, owned now 80% by EADS and 20% by BAE Systems, is due to be converted from the Airbus Industrie consortium to Airbus Integrated Corporation by the end of 2000.

The year 2000 is shaping up to be another excellent year for European industry. Strong sales of Airbus aircraft, featuring the commercial launch of the super-jumbo A3XX, continue to lead the way. Major procurement projects including the start of production of the Eurofighter, orders placed for the Tiger helicopter, and a signed MOU for the NH-90 helicopter are all important developments. Of particular relevance was the agreement by the U.K. to order Airbus Military Company's A400M tactical airlift, an aircraft still in the early stages of development, instead of purchasing C-17s and additional C-130Js from the U.S. This, plus the U.K.'s decision to purchase EADS' Meteor air-to-air missiles for its Eurofighters over a competing offer from Raytheon, were two notable choices in favor of European suppliers over U.S. products.

Consolidation continues within Europe, both at the first and second tiers, with the oft-stated goal of becoming better placed to face U.S. competition. Simultaneously, European industry leaders have regularly expressed their desire for greater trans-Atlantic business relations. Various agreements and discussions between major firms indicate that these efforts will be ongoing, albeit slowly.

Source of data: AECMA/European Association of Aerospace Industries, unless otherwise indicated.